

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

PPE0054 – BASIC MACROECONOMICS

(Foundation in Business)

4 JUNE 2018

9.00 a.m. – 11.00 a.m.

(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **NINE** pages.
2. Answer **ALL** questions in **Section A** and **B**.
3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS [30 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the **OMR** sheet.

1. Using your Visa card to order a ring from the Lazada is using money as a _____.
A. store of value
B. medium of exchange
C. A and B
D. none of the above
2. Ed Sheeran has checking accounts with Bank A and Bank B. One day, he withdraws RM2,000 from his checking account at Bank B and deposits it into his checking account at Bank A. Both banks hold zero excess reserves and are faced with the same required reserve ratio. As a result of Ed Sheeran's action, the money supply _____.
A. decreases
B. increases
C. remains constant
D. changes its composition
3. If an individual withdraws RM500 from his/her checking account and holds it as currency, then M1 will _____ and M2 will _____.
A. decrease; increase
B. increase; decrease
C. not change; increase
D. not change; not change
4. When inflation rate rises, the _____.
A. demand for money increases
B. the demand for money decreases
C. the quantity for money demanded increases
D. the quantity for money demanded decreases
5. An economy that is experiencing a recession (and thus, a lower income) is usually associated with lower interest rates because _____.
A. lower incomes cause a lower money supply
B. lower incomes cause a higher money supply
C. lower incomes cause a lower money demand
D. lower incomes cause a higher money demand
6. Banks can continue to make loans until their _____.
A. actual reserves equal their excess reserves
B. actual reserves equal their required reserves
C. excess reserves equal their required reserves
D. actual reserves equal their checking account balances

Continued...

7. Inflation that is _____ than expected benefits _____; inflation that is _____ than expected benefits _____.
- A. lower; borrowers; lower; lenders
 - B. lower; borrowers; higher; lenders
 - C. higher; borrowers; lower; lenders
 - D. higher; lenders; lower; borrowers
8. The shoe leather cost of inflation refers to _____.
- A. the decrease in real income related to inflation
 - B. the decrease in purchasing power related to inflation
 - C. costs that arise from trying to reduce holdings of cash
 - D. the fact that inflation leads to an increase in the price of all goods, including shoe leather
9. Suppose Sheila borrows RM2,000 at an interest rate of 10 percent. If the expected real interest rate is 4 percent, then the rate of inflation over the upcoming year that would be most beneficial to Sheila would be a rate of inflation _____.
- A. equal to 0 percent
 - B. equal to 6 percent
 - C. less than 6 percent
 - D. greater than 6 percent
10. Suppose that retirees are included as employed in the labour force statistics, rather than being counted as out of the labour force. This would _____.
- A. increase the measured unemployment rate
 - B. increase the measured labour force participation rate
 - C. decrease the number of persons in the labour force
 - D. decrease the number of persons in the working-age population
11. The increase in cyclical unemployment during a period of prolong recession would _____.
- A. increase the natural rate of unemployment
 - B. decrease the natural rate of unemployment
 - C. have no effect on the natural rate of unemployment
 - D. have increased or decreased the natural rate of unemployment
12. The advice to "retrain" would be the most appropriate for which of the following types of unemployment?
- A. frictional unemployment
 - B. structural unemployment
 - C. cyclical unemployment
 - D. seasonal unemployment
13. The labour force participation rate includes _____.
- A. only those who are employed
 - B. only those employed but looking for a job
 - C. both employed workers and discouraged workers not seeking jobs
 - D. both employed workers and those unemployed but seeking employment

Continued...

14. If aggregate demand increases and expectations regarding inflation remain constant _____.
- A. the short-run Phillips curve shifts to the right
 - B. the short-run Phillips curve shifts to the left
 - C. the long-run Phillips curve shifts to the right
 - D. the economy moves left along the short-run Phillips curve
15. For a nation that is self-sufficient, its _____.
- A. production possibilities curve shifts rightward
 - B. production possibilities equal its consumption possibilities
 - C. consumption possibilities are less than its production possibilities
 - D. consumption possibilities are greater than its production possibilities
16. Suppose a country with a large domestic garment industry removed all tariffs on imported garments, we would expect domestic _____.
- A. garment prices to rise
 - B. garment prices to decline
 - C. garment production to increase
 - D. garment employment to increase
17. A tariff will grant _____ a larger share of the domestic market.
- A. foreign producers
 - B. foreign consumers
 - C. domestic consumers
 - D. domestic producers
18. The difference between the price buyers pay for a good and the maximum price they would have paid for the good is known as _____.
- A. taxes
 - B. total surplus
 - C. producer surplus
 - D. consumer surplus
19. A country that can produce good X using fewer resources than another country has a (an) _____.
- A. specialisation in the production of good X
 - B. absolute advantage in the production of good X
 - C. lower opportunity cost of producing good X than another country
 - D. all of the above
20. When a country allows trade and becomes an importer of a good, _____.
- A. consumer surplus and producer surplus will increase
 - B. consumer surplus and producer surplus will decrease
 - C. consumer surplus will increase but producer surplus will decrease
 - D. consumer surplus will decrease but producer surplus will increase

Continued...

21. The value of imports and exports is recorded in _____ in the balance of payments.
- A. capital account
 - B. current account
 - C. official reserves account
 - D. official settlements account
22. Suppose you received interest every year for some government bonds that you own. This interest is entered into which account of the balance of payments?
- A. capital account
 - B. current account
 - C. official reserves account
 - D. official settlements account
23. If the current account balance is RM80 billion, net interest and net transfers equal to RM0, then _____.
- A. exports are greater than imports
 - B. imports are greater than exports
 - C. there was an increase in net foreign assets
 - D. the capital account balance must be RM80 billion
24. If Malaysia receives RM350 billion of foreign investment and at the same time invests a total of RM320 billion abroad, then _____.
- A. balance of payments in Malaysia must be negative
 - B. capital account balance in Malaysia decreases by RM30 billion
 - C. capital account balance in Malaysia increases by RM30 billion
 - D. official settlements account balance in Malaysia increases by RM30 billion
25. When Thailand's current account has a deficit, this means that international payments from Thailand _____ Thailand's international receipts. To cover the current account deficit, there must be a _____ in the combined of capital account and official settlements account.
- A. equal; surplus
 - B. exceed; deficit
 - C. exceed; surplus
 - D. are less than; deficit
26. If the exchange rate changes from USD 0.25 per RM to USD 0.26 per RM, the U.S. dollar has _____.
- A. depreciated against the RM
 - B. appreciated against the RM
 - C. appreciated against the dollar
 - D. depreciated against the dollar

Continued...

27. Which of the following are reasons why Malaysians supply Malaysian Ringgit to the foreign exchange market?
- to buy U.S. exports
 - to buy Malaysia exports
 - to buy Singapore exports
- i only
 - i and ii only
 - ii and iii only
 - i and iii only

Refer to *Exhibit 1* for questions no.28 and 29.

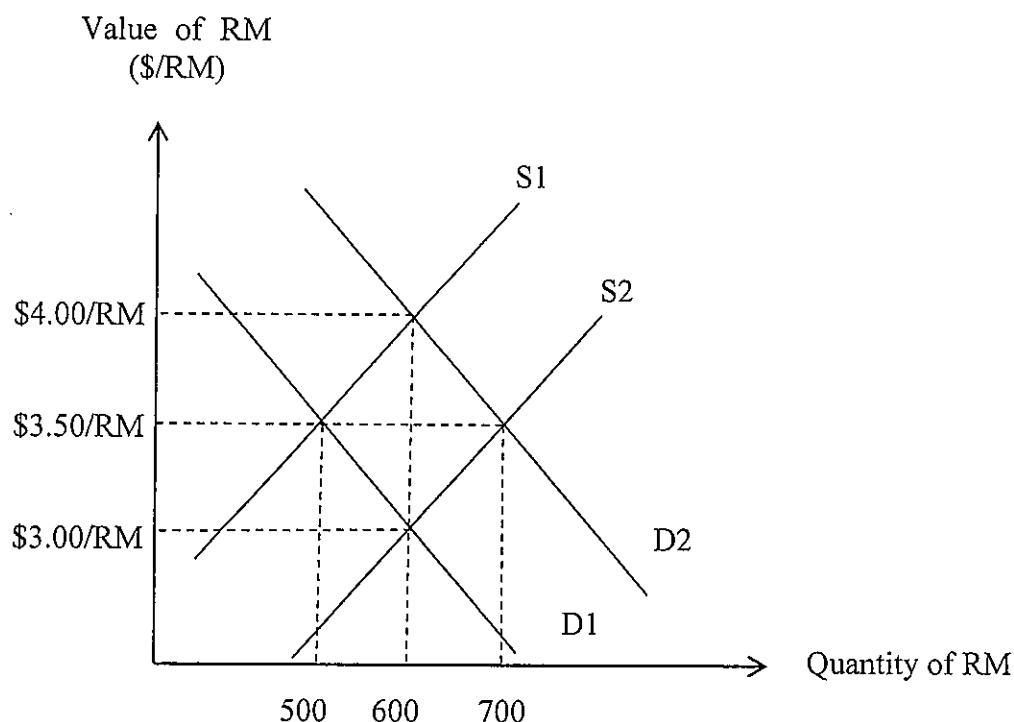


Exhibit 1

28. Refer to *Exhibit 1*. If the demand and supply of RM are D1 and S1, the equilibrium is _____.
- \$3.00 per RM and the quantity is RM500
 - \$3.50 per RM and the quantity is RM700
 - \$4.00 per RM and the quantity is RM600
 - \$3.50 per RM and the quantity is RM500
29. Refer to *Exhibit 1*. The demand and supply of U.S. dollars are D1 and S1. An increase in Malaysians demand for U.S. exports, ceteris paribus, could _____.
- increase the exchange rate (\$/RM) to \$4.00
 - decrease the exchange rate (\$/RM) to \$3.00
 - decrease the equilibrium quantity from RM600 to RM500
 - increase the equilibrium quantity from RM600 to RM700

Continued...

30. An increase in U.S. exports to Mexico increases the _____ for U.S. dollars and increases the _____ of pesos.

- A. supply; supply
- B. supply; demand
- C. demand; supply
- D. demand; demand

SECTION B: STRUCTURED QUESTIONS [70 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1

Part A

Suppose First National Bank has assets that consist of required reserves equals \$400,000, excess reserves equals \$600,000 and loans amounting to \$1million. Assume that the only liabilities of First National Bank are demand deposits.

- a) Prepare the balance sheet of First National Bank based on the above information. (2.5 marks)
- b) Calculate the reserve requirement ratio. (1.5 marks)
- c) Suppose a bond dealer comes to the First National Bank and deposits \$500,000.
 - i. Based on bond dealer's deposit, how much should First National Bank keep as required reserve and how much is the excess reserves? (3 marks)
 - ii. Assuming that First National Bank loaned out all of its excess reserves. What are the total amount of required reserves, loans and deposits that will appear in its balance sheet? (3.5 marks)
 - iii. Calculate the total increase in deposits in the banking system after infinite rounds of depositing and lending, (2 marks)

Part B

Exhibit 2 shows money demand schedule in millions of dollars.

Nominal interest rate (percent per year)	Quantity of money demanded (millions of dollars)
8	5
6	7
4	9
2	11

Exhibit 2

Continued...

Based on *Exhibit 2*, answer the following questions.

- How much would be the quantity of money supplied if the equilibrium nominal interest rate is 6 percent per year? Briefly explain. (1.5 marks)
- Explain how the equilibrium would be restored if the interest rate is 2 percent per year. (2.5 marks)
- Suppose that the central bank decreases the discount rates. Explain what will happen to the equilibrium nominal interest rate? (3.5 marks)

Part C

- If Year 3 is the base year, the price index for Year 4 is 108, and the price index for Year 5 is 105. What is the inflation rate (i) between Year 3 and 4 (ii) between Year 4 and 5? Explain what has happened to the cost of living between Year 3 and 4, and Year 4 and 5. (5 marks)
- Creditors and debtors expect the inflation rate to equal the actual inflation rate. The consumer price index is 120 in year 2 and 136.5 in year 3. If the interest rate charged by Ricky in year 3 is 20%, what is Ricky's real interest rate? (5 marks)

[TOTAL 30 MARKS]

Question 2

Part A

Exhibit 3 depicts the production possibilities of automobile and machineries in Canada and Italy using one labour hour.

	Canada	Italy
Automobile	150	90
Machinery	75	180

Exhibit 3

- Calculate the opportunity cost of producing automobiles in Canada and Italy. (2 marks)
- Calculate the opportunity cost of producing machineries in Canada and Italy. (2 marks)
- Which country should specialise in the production of automobiles? Why? (2 marks)
- Which country should specialise in the production of machinery? Why? (2 marks)
- What is the possible terms of trade for automobiles? Explain. (3 marks)

Continued...

Part B

Price of shoes(\$/pair)

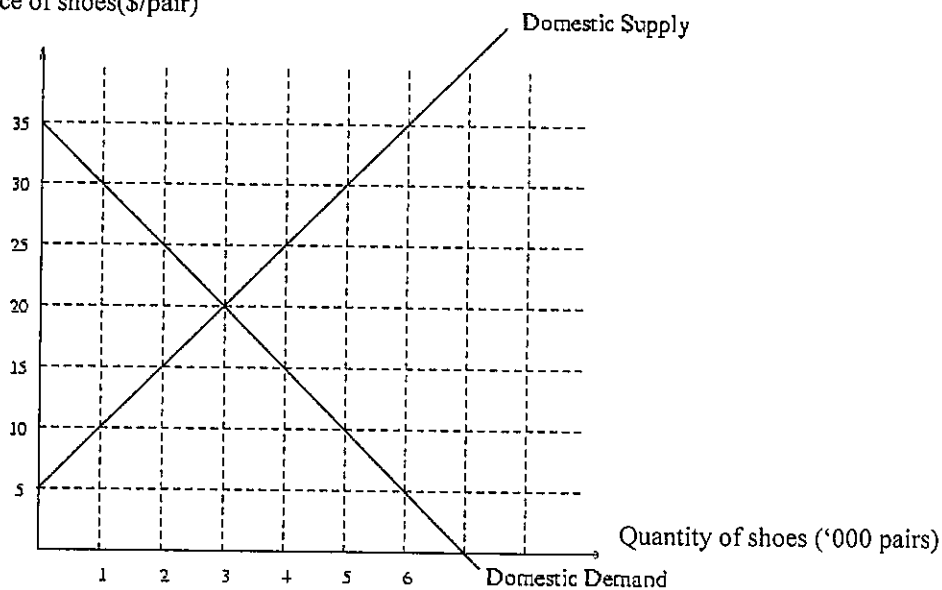
**Exhibit 4**

Exhibit 4 depicts the domestic supply and domestic demand for shoes in Midland. Midland is open for free trade. If the world price for shoes is \$10 per pair,

- how many pairs of shoes will be demanded and supplied domestically? (2 marks)
- how many pairs of shoes will Midland import or export? (1 mark)
- calculate the consumer surplus before trade and after trade. (2 marks)
- calculate the producer surplus before trade and after trade. (2 marks)
- who are better off and who are worse off after trade? (2 marks)

[TOTAL 20 MARKS]**Continued...**

Question 3

Exhibit 5 shows the economy data of Maryland in 2016.

<i>Item</i>	<i>Billions of Maryland dollars (M\$)</i>
Imports of goods and services	130
Exports of goods and services	50
Net investment income	-20
Net transfers	45
Foreign investment in Maryland	115
Maryland's investment abroad	55
Statistical discrepancy	-2

Exhibit 5

- Calculate Maryland's current account balance.
(3 marks)
- Calculate Maryland's capital account balance.
(2 marks)
- Calculate Maryland's official settlement account balance. What happen to the official reserves in Maryland?
(5 marks)
- If Maryland's exports of goods and services increase, explain how this would affect the demand for and supply of Maryland dollars (M\$).
(4 marks)
- Explain how the value of the Maryland dollars would change as a result of d). Illustrate your answer with a graphical analysis.
(6 marks)

[TOTAL 20 MARKS]

End of Paper